



## **MEDIA RELEASE**

### **Australian ERM ranks well by global standards but risk culture underdeveloped actuaries survey reveals**

**21 September 2011, SYDNEY** – Australian organisations benchmark well against global peers for Enterprise Risk Management (ERM) practices and management of risk culture, but, despite that, only half have embedded a risk culture into their organisation, a survey has revealed. The Institute of Actuaries of Australia ERM survey was released at the Institute’s 2011 ERM Seminar in Sydney yesterday.

“Continuing global financial market volatility and a spate of natural disasters in recent times, highlight the need for effective enterprise risk management,” said Melinda Howes, Institute of Actuaries CEO.

“In this context, we surveyed 250 actuaries and other professionals across Australia’s largest financial and commercial enterprises to see how our ERM practices compare globally and more importantly, what we can do to improve them.”

Australian financial institutions are generally risk averse – their risk appetite was rated “moderate” by more than half of the respondents (54%) with the next largest response (27%) rating it “somewhat low”.

Eighty one per cent of actuaries willing to compare Australia with other countries ranked Australian organisations as performing “above average” or “the middle of the pack” or “among the leaders in this field” for ERM practices and management of risk culture. Only 11% believe Australia lags the rest of the world.

Respondents highlighted the top three benefits of effective ERM implementation as: minimising losses to the organisation (75%); improving financial performance/maximising Return on Equity (64%); and managing expectations of customers, staff and investors (54%).

“Encouragingly, the survey showed most organisations (60%) believe they have an ERM program that is either “somewhat mature” – thoroughly communicated to staff and part of everyday discussions - or “moderately mature”, said Ms Howes. “Another 11% said their ERM

program was “very mature”, that is, embedded and integrated in the business processes and culture of the organisation.”

However, while most respondents felt there was a commitment from the head of their organisation to effective ERM (84%), only 20% of that group thought it was a “very high” level of commitment.

### **Risk culture development**

Despite the high reported levels of mature ERM programs in place, only 52% of organisations appear have an embedded, formalised risk *culture* communicated to staff, and only 37% of members surveyed said their organisation’s approach to building and fostering a risk culture is “good” or “very good”.

“The much lower proportion of organisations with an embedded, formalised risk culture compared to those with a mature ERM program reflects the challenge and long-term commitment required to change organisational culture,” Ms Howes said. “Embedding a risk culture in an organisation is the key to success.”

The survey showed the main barriers to developing a risk culture are: lack of commitment from leadership (51%), a poorly defined risk culture (46%), and poor communication to staff (37%).

Linked with those barriers, respondents were asked the most common failures of their organisation’s risk culture which included: ignorance of risk culture parameters and policies (49%), ignoring processes and reporting (43%) and poor governance practices (35%).

“Organisations should focus on eliminating barriers to developing a risk culture so ERM can be part of everyday decision making,” said Ms Howes.

### **Social and environmental factors**

The majority of organisational ERM programs focus on operational risk factors (91%), followed by economic risk factors (77%) and strategic risk (71%) factors. Interestingly, fewer programs consider social (26%) or environmental (28%) factors.

Ends

### **About the Institute of Actuaries of Australia**

As the sole professional body for actuaries in Australia, the Institute of Actuaries of Australia (Institute) represents the interests of its members to Government, the business community and the general public. Their unrivalled expertise enables the profession to comment on a range of issues including enterprise risk

management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance, health financing, and climate change.

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